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S E C R E T SECTION 01 OF 04 BAKU 000739

EUR ASSISTANT SECRETARY FRIED, EUR DAS BRYZA, EEB SPECIAL
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SUBJECT: PRESIDENT ALIYEV WELCOMES HIGHEST-LEVEL USG
VISITS, COMPLAINS OF ENERGY IMPASSE AND CONGRESSIONAL
CRITICISM

Classified By: Ambassador Anne E. Derse per 1.4(b,d)

¶1. (C) Summary: In an August 4 meeting with the Ambassador and visiting OVP Deputy Assistant for National Security Affairs Joe Wood, President Aliyev welcomed the proposed visit of the Vice President, expressing general satisfaction with the U.S.-Azerbaijan relationship. Identifying Nagorno-Karabakh as "issue number one" Aliyev asked that the United States push Armenia for a solution in accord with the "norms and standards of international law." He outlined at length his deep concern that Nabucco and the southern gas corridor are at risk of failure, and with "time running out," urged rapid development and implementation of a concrete plan to bring them to fruition. He re-emphasized the need for Turkmenistan to be a key partner on energy and sought USG assistance to win Turkey's cooperation in this project of "common strategic interest." He underscored again that Azerbaijan "does not agree with and cannot accept" recent public characterizations of Azerbaijan's democratic development lagging that of others in the region. Aliyev said the OSCE can bring "as many observers as it wants" to monitor the October Presidential elections. End summary.

VP Visit

¶2. (C) In an August 4 meeting with the Ambassador and visiting OVP Deputy Assistant for National Security Affairs Joseph Wood, President Aliyev welcomed a visit of the Vice President to Baku as a "very important signal," saying it will be "instrumental" from the point of view of practical bilateral cooperation. Noting that "cooperation continues successfully on important joint projects in the region" and that he is "in general very satisfied with our level of relations," Aliyev said he looks forward to broad discussions touching on all aspects of the relationship.

Nagorno-Karabakh is Issue Number One

¶3. (C) Aliyev underscored that Nagorno-Karabakh is "the number one issue" for Azerbaijan today. Unfortunately, there has been "no breakthrough, no final solution" in the five years in which he has been actively engaged on the issue, although there has been "progress in the process." It is clear, Aliyev said, that "there will be no independence for NK. The Armenian leader agreed, and now they understand the status quo won't become permanent." Hence, in Aliyev's view, there is no further justification for Armenia to prevent Azerbaijanis from returning or to delay any further a settlement. Azerbaijan "counts on the USG's efforts to

persuade Armenia to behave according to the norms and standards of international law. This is our major request and our expectation from you."

Energy

14. (C) Aliyev said that energy and security in the Caspian are interrelated. Absent security, there can be no movement of energy. The Caspian is playing a larger role than ever in global energy production and Europe should pay more attention to matters in the region. The future political configuration of the region is being determined today, with "rivalry, aggressiveness and energy diplomacy" intensifying, Aliyev said. "We do not have much time," Aliyev added, noting that he had openly asked European partners to be more decisive on strategic energy projects.

15. (C) Azerbaijan, Aliyev asserted, is doing all it can do to facilitate provision of gas to Europe and in fact is presently "the most active party for future energy diversification." The other interested parties need to get in step, display more unity, and "play as a team," Aliyev said. Azerbaijan appears to be the one country most interested in promoting Nabucco. Others -- including some NATO allies and EU members -- are "ruining the energy policy of the West" with their disunity and inaction. Azerbaijan has not even been able to discuss energy with the major European countries -- France, UK, and Germany. And Hungary, Bulgaria, Austria, all Nabucco members, "are killing Nabucco" with their engagement with South Stream and separate deals with Gazprom. Although recent discussions with the Hungarian PM had been more positive, what Bulgaria and Hungary say to Azerbaijan and what they do doesn't track, Aliyev said. Europe had not responded to Azerbaijan's proposal to hold an Energy Summit or Ministerial, in Baku or in Brussels, with the Nabucco countries, Georgia and Turkmenistan. Azerbaijan, he emphasized, cannot fix the problem with Europe.

16. (C) Turkey, Aliyev said, is also a problem. "Geography can be a disadvantage if it is misused." There has been no agreement on transit terms nor on a new sales price for Shah Deniz I gas, as required on April 15. As a result, Turkey is still paying around \$100 (while prices in Europe are approaching \$400) and is giving the impression it wants to continue to do so as long as possible. Turkey's "unacceptable" behavior is not strategic, but that "of the bazaar." Aliyev said he told Turkish President Gul in Kars that if Turkey insists on buying the major share of Shah Deniz II production it will make it impossible for Nabucco to be sanctioned, and Azerbaijan will have to look at other options if the situation continues.

17. (C) Aliyev said he advised Gul to concentrate on buying gas from Turkmenistan, not Azerbaijan, utilizing Turkey's 1998 gas purchase agreement with Turkmenistan. "Gul had not thought about that before." Aliyev said this would be the best solution for Turkey's gas needs, and Azerbaijan can build the interconnector to join Azerbaijan's and Turkmenistan's infrastructure to transport the gas. He said that "your communication with Turkey -- to help them understand -- that this is in accord with our common interests," is key. Aliyev said he had not proposed that Azerbaijan finance and build Nabucco itself (as we understand President Saakashvili reported to DAS Brzya). COMMENT: We assume from Aliyev's comment that Saakashvili confused Aliyev's interest in building an Azerbaijan-Turkmenistan interconnector with building Nabucco itself. END COMMENT

18. (C) Turkmenistan is "passive" and will not initiate a deal but "it has the resources and we can persuade them to respond," Aliyev said. This will be easier for Azerbaijan to do than for western countries to do. Turkmenistan needs "an excuse" for non-Russian gas sales vis a vis Russia and can defend a sale to Turkey as a bilateral matter. Berdimuhamedov, Aliyev noted, had offered to sell gas to Azerbaijan at the border, and sells gas to Iran and Russia at the border now. He has "no excuse" not to also sell to Turkey. But Berdimuhamedov does not want to initiate the

deal, Aliyev repeated. "If we had guaranteed contracts with Nabucco we could purchase gas from Turkmenistan and sell it on, if Nabucco or Turkey does not want to do it." Gas purchase and sales agreements are needed now, but "no one in the group (of countries that should be interested in Nabucco) is doing anything," to advance them, Aliyev said. The failure to resolve transit terms with Turkey is a key part of the problem.

¶9. (C) BP, Aliyev said with frustration, has reported it will reduce Shah Deniz I production this year. This "may be for technical reasons, maybe not," Aliyev said. BP has big interests in Russia and "perhaps has received a message from Russia." Russia's main objective in energy is to block Caspian energy from going west. If BP cuts production, this will mean less gas for Georgia, which Azerbaijan is currently providing at less than half the market price to show support for Georgia, he added.

¶10. (C) "We do not see a strong commitment to this (Southern Corridor) project," Aliyev repeated. "Even with US support, we cannot do this on our own." Azerbaijan does not need to develop gas for Europe for economic reasons. Azerbaijan's revenues from gas will never parallel those it receives from oil. The 30-40 bcm it will soon have has a ready market in Russia, Georgia and Turkey. Russia has offered to buy all Azerbaijan's gas for Southstream, with an offer that from a purely commercial point of view is "acceptable." However, "the gas factor for us is not commercial."

¶11. (C) Concluding that the picture is "not very optimistic," Aliyev urged again that "we need a plan." This should include persuading Turkey or Nabucco to negotiate with Turkmenistan for gas supply, urging Turkey to see the bigger picture and "not block" Nabucco, securing Turkmenistan's agreement to sign a deal with Azerbaijan to build an interconnector, urging BP to act only as a commercial entity, and convincing the EU to "pay more attention to the Caspian -- displaying less skepticism and more unity."

Iran

¶11. (S) Aliyev noted that bilateral cooperation on Iran is "much broader than what is seen," as it is on "all issues of the neighborhood." He said that it would be "very important to hear from you your expectations of us. We'll wait to hear from you."

Democratic Reform

¶12. (C) Aliyev confirmed that the OSCE would observe Azerbaijan's October elections and "can send as many observers as they want." The election campaign has begun and is proceeding "normally." Some opposition parties have announced a boycott; "this is just an excuse not to participate."

¶13. (C) Highlighting the number of media outlets and publications in Azerbaijan as evidence that Azerbaijan "does not have restrictions on the media," Aliyev said information in the US on this issue "is not right." He said he was surprised to hear that at the recent Helsinki Commission hearings in Washington, it was reported that if someone in Azerbaijan criticized him, that person would be arrested. "This is provocation and disinformation ... I am criticized daily, and in ways that go beyond ethical rules." Those who criticize "are still walking" around Baku. Aliyev said he is trying to install the Internet in every school, and has no plans to limit it. A recent monitoring of Radio Liberty broadcasts, he maintained, showed 90 percent of the coverage was "critical of me" with limited opportunities for "our party" to respond. Radio Liberty's activity shows the level of media freedom. "They can reflect what they see, but we ask that they be objective," Aliyev said.

¶14. (C) "Insulting me personally is not fair or friendly," Aliyev said. Moreover, "we do not believe that the level of democracy in Azerbaijan is lower than that of any other

country of the region." The "assumption" that democratic reform is weaker in Azerbaijan than in Georgia or Armenia "was always in the air in Washington, and the Secretary of State made it public recently," Aliyev noted. "It is a classification of democratic development we do not agree with and we cannot accept," especially in light of the crackdowns in Georgia and Armenia, including killings of protesters, closure of media outlets, arrests of oppositionists, and the declaration of state of emergency. "We never did anything like that and we are considered less democratic."

¶15. (C) Aliyev also paraphrased Secretary Rice's recent comments in Prague about "oil rich dictatorships with 18th century systems enjoying only temporary success," which he said were made in response to a question about Azerbaijan and Kazakhstan. "These kinds of statements are not helpful; we do not understand why they are happening. They are not in line with our relations and they do not reflect Azerbaijan's realities." Major events in Georgia or Armenia draw little US criticism, while minor events in Azerbaijan draw major USG reactions, Aliyev said. Such statements also create a negative image of Azerbaijan. "CNN called me a dictator, but not Sargisian or Kocharian, and they killed people." People in Azerbaijan watch these reports and they raise questions. When they come from CNN or Radio Liberty people think they reflect the USG's views. It is one thing for NGO's to criticize, another thing for the State Department to do so, Aliyev said.

COMMENT:

¶16. (C) Although clearly pleased at the prospect of the visit, Aliyev was frustrated in his comments on energy, NK, and Azerbaijan's democratic development, all difficult issues at present for him. His direct "request and expectation" that the USG push Armenia for a solution on Nagorno Karabakh consistent with international norms and standards reflects the hard line he has taken publicly and privately since the March UNGA vote that any solution on NK must preserve Azerbaijan's territorial integrity. On energy/Nabucco, he remains very unhappy with what he sees as European and BP foot-dragging and duplicity, and Turkish intransigence. Clearly at a loss as to what more Azerbaijan can do, he continues to seek greater support from the USG to secure cooperation from Turkey, the EU and BP. Finally, Aliyev continues to seek an explanation for public comments contrasting Azerbaijan unfavorably with its neighbors on democratic reform.

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